

# HOTEL yearbook 2012

Scenarios for the year ahead

Choice CEO Stephen Joyce :  
Ideas, insights – and wishes – for 2012

Is your hotel ready for the Chinese?

The 2012 outlook for key hotel markets :  
30 exclusive country reports from Horwath HTL

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What will they be? How much will they cost?

Legal issues facing us in Europe, China and the USA

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# The giant is wide awake

« CHINA IS NO LONGER THE 'SLEEPING GIANT' IN THE OUTBOUND TRAVEL AND TOURISM BUSINESS, » SAYS **GIOVANNI ANGELINI**, FORMER CEO OF SHANGRI-LA HOTELS AND RESORTS AND NOW HEAD OF **ANGELINI HOSPITALITY** IN HONG KONG AND VICE CHAIRMAN OF **DUSIT OVERSEAS COMPANY LTD.** IT IS FULLY AWAKE, AND IN A VERY SHORT PERIOD OF TIME HAS BECOME THE FASTEST-GROWING TRAVEL MARKET IN THE WORLD. WITH HIS IN-DEPTH KNOWLEDGE OF THE REGION, THIS SEASONED EXECUTIVE GIVES THE HOTEL YEARBOOK A PRACTICAL AND USEFUL OVERVIEW.

It is estimated that there will be over 100 million International travelers out of China well before the year 2020 (most probably by the years 2017-8), a very large volume for the travel industry to handle. Statistics shows that 47.5 million Mainlanders travelled out of China in 2009 and around 57.3 million in 2010, about 4.3% of the total population. The experience of the past few years has proven to us that the Chinese outbound market is developing at a pace unparalleled in the history of the travel and tourism industry.

China National Tourism Administration (CNTA) predicted that outbound travel from China would increase 14% to 65 million in 2011, while the overseas spending by these Chinese travelers on their trips outside China would jump to US\$ 55 billion from US\$ 48 billion in 2010.

## ENORMOUS POTENTIAL

The long-term opportunities that China offers to the global travel and tourism industry are second to none. Is the world – and the industry – ready for this movement?

International trips out of China are increasing very rapidly, and all those in the industry must understand what is happening, and most importantly, how to respond. The potential of this market cannot be ignored, is here to stay, and will make a major impact in many destinations around the World.

Mostly thanks to rising disposable incomes and relaxation of restrictions on travel, outbound travel has increased by an average of close to 20% per year since 2000 (originally from a low base), and will continue to increase in the years to come, perhaps at a lower percentage growth rate. China has become much more «worldly» within the travel industry.

International arrivals (inbound) in China for 2010 reached a record of 26.2 million, representing a growth of 7.3 million visitors or 6% over 2009. The country is already Asia's top travel destination, and is predicted to be the top global destination and a major player for outbound travels.

There are continuous improvements within China favoring outbound travel, among them:

- Political support for activities related to outbound travel
- Easier access to passports and hard currency
- Approved Destination Status (ADS) agreements with all important destinations, signed with the respective foreign governments
- Improved International relationships around the world
- Increased leisure time – a 5-day working week and 3 weeks of paid vacation annually
- Consistent changes in consumption and lifestyle, especially in the area of seeking new personal experience and well-being
- Continuous appreciation of the local currency, the RMB, and the emergence of a huge middle class with spending power and a thirst for travel
- Greater interest in in-depth travel and new destinations
- Availability of cash – the Chinese culture in general is strong on saving
- Larger choice of countries and destinations to visit and tours to participate in than previously
- Increase in the availability of international flights to major destinations around the world – also from the secondary cities within China
- Aggressive external promotions, from «Visiting China» to «Chinese Visitors.»

Mostly due to strong regional economies, outbound travel originating from the South and East of China tends to be more frequent than from the North and West of China.

We must accept the fact that there are cultural differences between Chinese and Western consumers

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Travel trends are gradually changing. First-time travelers tend to go the old traditional way of group travel for 10-14 days (long haul) and visit ten or so Western cities or countries in one stint. These trips are referred to as «Eye Opening Tours,» in which tourists try to see first-hand what they have read or heard about, or perhaps learned about in school. On the other hand, the individual traveler (especially on subsequent trips) may travel to only one or two destinations, and tends to spend more money.

While sightseeing vacations still top the list, eco-tourism holidays are growing fast. There are also clear indications of more sophisticated and adventurous areas of travel, heading towards destinations off the beaten tourist track. On that note, incentive travel from China also has been growing in the past couple of years. Given there are many organizations eager to recognize their employees, incentive travel has strong growth potential.

It is thus critical for decision makers and operators in this industry to understand Chinese consumer behavior and the ever-changing travel purchase and research patterns of this market.

We must accept the fact that there are cultural differences between Chinese and Western consumers. Differences exist as well between the tour group dynamic and that of the well-off individual traveler. The expectations of each vary greatly. Also, there is a need to understand that offline travel agents and tour operators still dominate the final travel arrangements (they make the bookings), while the consumer is in many cases influenced by online information. Therefore, Chinese language portals are critical for promoting destinations. This applies to countries or cities, hotel groups, major tourist attractions and anyone interested in attracting the Chinese outbound market.

Of course, a major advantage in China for any hotel groups or operators would be a comprehensive online booking capability in Chinese/Mandarin, especially for the individual traveler.

The travel and tourism industry must also very clearly understand the sensitivities of Chinese travelers as well as a range of problems that repeatedly arise, e.g.:

- Difficulties getting visas in many places
- Issues with safety, hygiene and risk of virus (H1N1 and similar)
- Quality expected by Chinese travelers
- Perception of discrimination in some parts of the world (a very sensitive issue)
- Bilateral political relations and specific situations between China and other countries that develop concerning specific issues from time to time.

Like in most parts of Asia, open relationships and communication aiming to develop trust and confidence with travel agents in China are critical for closing business deals. Also, one has to know and understand how the process works for obtaining visas, as well as many other peculiarities that pertain to the Chinese traveler's needs and expectations, among them air and land transportation, currency, payments and credit cards.

## ONLINE BOOKINGS

Hotels around the world are getting used to the ever-growing Chinese OTAs and booking sites such as Ctrip, eLong, Qunar.com, Kuxum.com, and Daodao.com.

As China's travel market continues to grow, adoption of online booking is picking up as well. While only around 10% of international trips were booked online in 2009, that proportion is expected to double by 2011 and double again by 2013. Web-based travel search in China still lags behind Western markets, but things are changing very fast.

One of the strategic directions Ctrip will be taking in the coming couple of years is to focus on the growing online overseas FIT Air and Hotel Packages. This is because «individual leisure travelers» who are exposed to buying online are increasing year on year, and many of them are frequent business travelers.

The Internet is becoming a very important platform for Chinese consumers. More and more Chinese are buying online, and Taobao.com is the largest website for this. Chinese consumers are buying almost everything there, including branded products and travel packages.

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China's global distribution system (GDS) environment is closed to outside competition. For this reason, the ones belonging to Ctrip, eLong and similar sites will dominate and do well. Will this business eventually open to outsiders? When? It's difficult to answer at this stage. Of course, outside operators like Rakuten, which is very successful in Japan, will try very hard to find ways to exploit the potential of the Chinese market, and other global systems will try as well.

## SOCIAL MEDIA

In Mainland China, social media marketing is growing. Despite the fact that China restricts Internet use, blocking Facebook, Twitter and YouTube, the country's major portals such as sina.com, qq.com and 163.com are active and give anyone interested in the Chinese market a useful snapshot of Chinese culture and trends among the «Gen Ys» – who also are potential travelers.

Several of China's meta-search sites focus on travel within China, Hong Kong and Macau. These sites, which tend to emphasize greater value (but not necessarily «deals» or lowest prices) aren't yet global, but could become so in the near future.

## HOW HOTELS CAN RESPOND

Hotels worldwide wishing to compete for this ever-growing travel market must be willing to make the extra preparations and appropriate actions to prove themselves ready.

- **Communication.** Mandarin-speaking staff – as well as sales and marketing personnel – become a must for this market, as does providing Mandarin versions of in-house material such as directories, menus, information, etc.
- **Food.** In general, travelers from China will not stay more than two days without Chinese food. Hotels should either provide Chinese fare in house, or make arrangements with outside providers. Chinese travelers are particularly sensitive regarding their breakfast options. They welcome items such as congee, simple dim sum, steamed rice and even soup. The traditional continental breakfast will not do.

During the 1980's influx of Japanese travelers, hotels did make an effort to provide some Japanese food. Now it's time to make a similar effort for the Chinese, with the exception that the Chinese market has much stronger potential for the future. Freshness is important. Avoid using frozen foods. The suggestion here is to communicate with tour organizers well beforehand as to group preferences and be well prepared.

- **Hotel rooms.** Tour group preferences are for twin beds (two beds), whereas individual travelers will often request a king or queen size bed. In addition to the standard amenities, Chinese travelers prefer there be slippers in the room, and a kettle (very important), as the Chinese love to make tea, and in some cases will even bring along their own tea leaves. Stock the mini-bar with instant dry noodles (another kettle-oriented amenity). Lastly, if possible to do so, include an easy-to-operate, in-room safety deposit box, with instructions in Mandarin.
- **Simple plans, simple itineraries.** Hotels must be sensitive to the fact that in most instances, members of tour groups may not be able to communicate or read the local language. It may be that this is their first time out of China, or first time in that particular region. Thus, hotels would be wise to set up a 24-hour Mandarin language contact (or capability), and to help groups create a packet of basic information (containing hotel and group contacts and rooming lists, meeting agenda with times and locations, international telephone calling instruction, meals schedule, basic wake-up call and front desk guide, group departure, ground and air transport times and locations). Sharing medical assistance and related information as appropriate is also essential.

It's helpful too to remember that Westerners (including hotel employees), normally aren't familiar with Chinese names, and thus will tend not to be able to differentiate the last name from the first name. This normally creates confusion.

## CHARACTERISTICS OF THE CHINESE TRAVELER

Hotel operators and staff must always be sensitive to cultural differences. Regarding the Chinese traveler, one may note the following:

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- Places less importance on punctuality and maintaining a rigid schedule
- Tends to be very sensitive in instances of perceived discrimination
- Tends to be more comfortable within in a group while in a foreign destination
- Appreciates any signage and information in Mandarin
- Prefers to visit as many places as possible during the stay in a foreign destination
- Has high interest in places where Chinese leaders or celebrities have also visited
- While the older generation prefers to pay in cash, the younger generation is more likely to use a credit card.

While individual travelers will definitely prefer city-center hotels, and are most likely prepared to pay downtown rates, tour

groups will tend to be less demanding and more likely to leave location choice to the ground operator or local agent. In most cases, price will dictate hotel choice and location.

## PUBLIC BEHAVIOR

China's National Tourism Administration is taking steps to address widely reported concerns regarding the behavior of their citizens traveling abroad – even having recently gone so far as releasing a list of «do's and don't's» for citizens intending to travel abroad. This behavioral shift may take some time, but there are already positive improvements. Meanwhile :

- Individuals may light up cigarettes in non-smoking situations.
- They may dress too casually for certain places such as more formal restaurants.
- Some Chinese like to speak loudly when in groups ;

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consequently, dining and hotel check-ins may be boisterous or crowded.

Public displays of frustration are frowned upon by the Chinese, even when the situation merits it. The notion of «face» is important, and any organization who understands this will do very well in this potentially large market. Chinese take pride in their nationality and hotels and hospitality people must heed this sensitivity.

## SHOPPING

It is a fact that Chinese tourists spend much more on shopping than tourists from elsewhere. According to The New York Times, an American's Paris shopping expenditures amount to just 40 percent of a Chinese visitor's.

Primarily they buy luxury brands and favor high quality local souvenirs. They are fully aware that many of the branded products are made in China, and of course they stay away from those. Also Chinese travelers are demanding when it comes to product quality as well as shopping options. They are bargain hunters, skilled at comparison and negotiation.

## LUXURY BUYERS

A recent McKinsey report states that by 2015, China will overtake Japan as the world's largest luxury market, as its economy booms and an emerging middle class spends a growing amount of cash on high-end items. Chinese consumers enjoy displaying their wealth and success. When traveling, they don't merely spend on themselves, but also purchase gifts for friends and family. Also, luxury consumers in China are younger than their global peers.

The Hurun Report in Shanghai recently released its annual «Hurun Rich List.» According to the List, some 875,000 Chinese people are now worth more than \$1 million, and almost 200 of these are billionaires – and the real number is likely to be far higher.

Over the next decade, wealthy Chinese will account for an increasingly larger share of global spending on goods such

as bags, vehicles, watches, shoes, clothes and other branded items. And let's not overlook the private jets, prime real estate properties, works of art, and many more prime luxury items that they'll also consume.

The growing Chinese upper class is only just beginning to become a major force in the luxury markets worldwide, and this applies to hotels as well. Are the hotels ready for this enormous potential?

Now is a great opportunity for high-end hotel brands to differentiate themselves, establishing relationships and building repeat business with China's new economic elite. These are

When traveling, they don't merely spend on themselves, but also purchase gifts for friends and family

people prepared to part with significant sums, so long as the exercise heightens their social standing (i.e. both «face» and status). It will be fascinating to see who will succeed. Rewards will be very high.

## TRAVEL SPENDING

Mainland Chinese travelers presently spend an average of \$3,750 per person per overseas trip (over \$5,000 for longer trips, and around \$2,500 for regional trips). Compare those numbers to the amounts for Hong Kong and Taiwanese travelers, which were an average of \$2,700 and \$2,100 respectively, and it becomes clear that Mainland Chinese enjoy shopping during their travel. (source: Travelzoo Asia-Pacific)

## IMPACT ON AIRLINES

As forecasted by The International Air Transport Association (IATA), worldwide annual commercial airline passengers will

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rise to 3.3 billion by 2014 (up from the 3.5 billion it estimated in 2009). IATA projects that 45 % of these new passengers will travel on Asia/Pacific routes with well more than half flying on routes connected to China.

This creates enormous business opportunities, but it also presents some challenges. In the next four to five years, the global travel industry needs to be able to handle 800 million more travelers – many of them from the rapidly developing countries like China and India. This will require capital and infrastructure in terms of airports, in-land transportation, hotels, security, and so on.

The United States will remain the largest single country market for domestic passengers (671 million) and international passengers (215 million). At 379 million, China will be second-largest, followed by Japan (102 million), Brazil (90 million) and India (69 million).

Regarding international passengers, IATA data showed that while the United States will continue to account for the largest number, China is experiencing the largest growth. IATA research stated that at 10.8 % growth, China will be the world's fastest-growing market for international passenger traffic, followed closely by the United Arab Emirates (10.2 %), Vietnam (10.2 %), Malaysia (10.1 %) and Sri Lanka (9.5 %).

It's worth pointing out that two of the world's top five airlines (by market capitalization) are in China. The country is emerging as an aviation powerhouse and is clearly the fastest-growing international and domestic passenger marketplace. It's also important to note that China plans to build 45 new airports in the next five years at a cost of \$230 billion (source: Bloomberg) and has placed large orders of new wide-body planes both for long-haul and domestic use. There is serious commitment and support for the coming growth in China travel and tourism industry.

## IMPACT WITHIN ASIA

China is a major contributor to the travel and tourism «arrivals» within numerous Asian destinations. It's generating larger

volume of arrivals now, and has strong potential to increase travel arrivals coming years.

Asian travel destinations in which China ranks first in «arrivals»

- Hong Kong – China is the most dominant visitor nation, by far
- Macau – Las Vegas-style gaming and entertainment destination
- Vietnam – An emerging travel market with huge growth potential
- Maldives – Very expensive destination

Asian destination in which China ranks second in «arrivals»

- Singapore – Indonesia ranked No. 1. Casinos are the major draw
- Thailand – Malaysia ranked No. 1. A tremendous value destination
- Myanmar – Thailand ranked No. 1. In vicinity, and excellent value
- Brunei – Malaysia ranked No. 1

Other Asian destination where China ranks high for «arrivals»

- Cambodia – China 3rd behind Vietnam (1) and South Korea (2)
- Laos – China 3rd behind Thailand and Vietnam
- Philippines – China 4th behind South Korea, USA and Japan
- Indonesia – China 4th behind Singapore, Malaysia and Australia
- Malaysia – China 5th behind Singapore, Indonesia, Thailand and Brunei.

Chinese arrivals in India and Sri Lanka are not among the top 10 markets for those two countries at this stage. However, the potential for increase is strong, particularly if government relations between the countries continues to improve.

Clearly, China is driving much of the Asia Pacific business and leisure travel growth. This has been reflected in Asian hotels' performance during 2010. Statistics shows that the travelers in the age 20-35 demographic favor Asia, while older age groups still prefer Europe and the Americas.



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The busiest time of the year for leisure travelers coming from China is during the Lunar New Year Festivities (Chinese New Year), around National Day (October 1st), and during China's Autumn Festival, also referred to as the «Golden Weeks.» Obviously, plenty of travel also occurs around individuals' work holiday time, which may occur at various points of the calendar year.

An emerging Chinese travel trend is to escape the severe weather during temperature extremes. Not only are some Chinese leaving behind the winter chill in favor of warmer climates; many are also finding distant oases to escape to in the hot summer months as well.

Chinese corporate travelers, a growing market, are becoming increasingly savvy. They're continuously studying options to find the best deals available on how to stretch their business-travel investments.

## LONG-HAUL TRIPS

While Asia remains the most popular destination, long-haul travel continues to increase rapidly. With more than 2.4 million Chinese visitors in 2010, Europe commands the second-most preferred destination position, with Germany, France and UK leading the way. Visiting Oceania (Australia, New Zealand and others) is high on the list as well.

More than a million Chinese visited the United States in 2010, and with the recently opened Canadian destinations, North America is becoming an increasingly attractive place to go. South America also is enjoying popularity, with Brazil, Argentina and Chile among top choices.

Because China has an unfortunate, high level of airborne pollutants in its cities, some of the more sophisticated travelers are actually seeking to leave the bad air behind and escape to destinations where the environment is cleaner.

One additional note: The Chinese tend not to spend much time in beach resorts when travelling overseas.

## GAMING CITIES MAKE THEIR OWN LUCK

Believe the old saying, «the Chinese have gambling in their blood,» because mega-casinos and resort-style gambling worldwide are definitely attractive to Chinese visitors, and benefit from the strong likelihood of repeat visits.

Note the success with Chinese visitors of popular gambling and entertainment destinations such as: Las Vegas, Macau, Singapore, South Korea, Australia and others. Gaming destinations have a decided advantage over others in attracting the Chinese travel dollar.



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## ASIAN OUTLOOK

Today Asia is already an astounding force in travel. It will only continue to astound. As Chinese travel picks up and the number of Chinese travelers enjoys a corresponding rise, Asia will become the top travel region in the world during the years to come. With 62 % of the world's population and roughly one third of its GDP, Asia is a major source of business for hotels and for the travel industry in general.

The hospitality industry needs to be well equipped to handle the large volume of travelers coming from Asia. Hotels and the like will need to manage the rapidly changing travel landscape. As such, increasing value will be placed on things like marketing, promotions, bookings, flights, accommodation, ground transportation, dining, sightseeing, shopping and much more. Asia's emerging markets are poised for explosive online growth, another factor that will bring a major impact to travel and tourism worldwide.

China and India are leading the way among the globally emerging economies helping to drive travel demand. Growth is the name of the game for all industries within those countries, including the travel and tourism business in corporate, group and individual leisure, in meetings and conventions, education, sport, and elsewhere.

## ESTABLISHING A PRESENCE

From major hotel groups on down to the smallest hotel chains, it goes without saying that all organizations seeking success here must establish sales representation within China. Setting up offices and being present to develop business relations in China thus becomes essential. Wise personnel would do well to establish connections with the various local travel and tourism bodies – promoting the brand, soliciting new business and facilitating hotel bookings.

Optimal locations for regional sales offices include: Shanghai (east region), Beijing (north), Guangzhou (south) and Chengdu or Chongqing (west). China is vast, and with its high population and diversity, good coverage is essential for gaining return on

a multiple-office investment. If one could only afford a single office, Shanghai would be the obvious choice, with Beijing a close second.

One reality that industry players are facing now is a serious shortage of qualified and committed sales and marketing personnel. In China, employee turnover in this field is high and loyalty is low. To retain talent, companies must strategically consider improving average base compensation, supported by attractive incentives. In general, local employees respond well to clearly defined incentives on top of a base compensation.

Finally, a word of advice regarding those individual hotels without a franchise (or lacking a chain affiliation) who are interested in China nevertheless. Companies will make progress faster when they first establish good working relations with the agents based in their respective home regions who represent China's large operators. These individual hotels also should consider attending industry activities in China, such as the annual China Outbound Travel and Tourism Market conference (COTTM), and others like it, to develop business contacts.

## BOOKING AND PAYMENT

It's a serious commitment for any operator, owner, or manager seeking to cater to this market long-term. Any given organization must first define whether it truly wants to enter this market. If there isn't sufficient interest, it's probably best to wait.

However, if the hotel is in fact interested, then it becomes essential for the business to prepare tailored, specific communications, address special dining requirements, make any necessary room modifications, print material in Mandarin as required, and execute many more related actions that may be required of the particular location in meeting the needs of its Chinese visitors.

When it comes to the topic of booking and payment, the hotel must have Mandarin speakers on staff at the front, as well as inside the sales department, to field the requests and place a value on details of the group's visit.

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It is important to establish a primary contact person with whom the hotel is going to be dealing. There is likely to be a contact traveling with the group, and also a local representative who is not actually going to be along for the visit. Establish up front who is giving the guarantee, who will be making payment, and who handles ground transportation and tours.

Signed agreements must include the currency, amount of the deposit, final payment and timing, early check-in and late checkout information, individual consumption, free accommodation for guidance escorts, and of course, all other standard group handling processes.

## TREND: THE CHINESE SERVING THE CHINESE

Given the growing outbound tourism that is being projected for the next several years from within China, we can expect corresponding growth in China among travel and tourism related organizations. New businesses will form, taking over or developing hotels and related services. In Hong Kong, for example, the China travel service owns and operates four mid-scale economy hotels intended mainly for the Chinese traveler. Most probably, this company (and others like it) will expand into other markets to take advantage of the brand loyalty (and patriotism abroad) of Chinese travelers.

## WHAT TOURISM OFFICIALS CAN DO TO RESPOND

- Relax visa rules, making visas easier for Chinese travelers to obtain.
- Provide more incentives to tourism organizations handling the Chinese market.
- Tailor more convenient facilities specifically to this audience.
- Encourage more direct flights to key Chinese cities.
- Establish and fund new sales offices within China to promote tourism.
- Create a China-hosted tourism website aimed directly at this audience.
- Create attractive programs that stand out in the highly competitive Chinese travel market, and direct smarter and more highly targeted marketing and promotions that communicate the unique offerings available.

- Develop and maintain partnerships in China with top tourists organizations.
- Participate in China's key travel and tourism exhibitions and conferences.
- For continuity, match your senior, or stronger, relationship builders in relationships with China tourism organizations, who value the continuity.
- Take the initiative to ensure the presence of Mandarin-fluent travel personnel during as much of the journey as is possible – this would include at airports and onboard, immigration and customs, ground transport, hotels, restaurants, shops, sightseeing tours, etc. Tourism officials may wish to provide Mandarin language instruction for those in contact with the Chinese customers.
- Aim for shopping opportunities that include consistent product quality and pricing.
- Encourage or arrange for Chinese restaurants to open their doors to individuals or groups where Chinese tourists will visit.
- Strive to immediately address challenges Chinese tourists encounter regarding any aspect of the travel experience (airline, hotel, transport, dining, etc.). Prompt troubleshooting not only resolves the problem at hand but also helps promote reputations in the often-critical Chinese media.
- Set up a 24-hour, Mandarin-fluent call center and offer fast response to questions.
- Avoid the longest lines while passing through Customs and Immigration.
- For Chinese tourists who love to shop, make tax refund forms available and offering assistance with the overall process and form completion.
- Be aware of travel health requirements, preparing accordingly.

## NAPOLEON WAS RIGHT

There is a famous quote from Napoleon regarding China. I'd like to close by updating it in an apt way – a variation encountered at a recent travel and tourism conference presentation in China:

**«Let China sleep, for when she wakes, she will shake the world. She already has.» ■**



## CRAFTING FLAVOURS?



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